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STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

**DATE:** March 23, 2006

**TO:** State Assessed Telecommunications Companies

**FROM:** Scott Lonberger, Administrator  
Assessment and Certification Division

**SUBJECT: EXTENDED COMMENT PERIOD REGARDING** Original Cost Valuation  
Multipliers for State Assessed Telecommunications Personal Property

At the March 22, 2006, State Tax Commission meeting, it was decided to extend the telecommunications industry comment period regarding valuation multipliers for state-assessed telecommunications personal property. Specific details and requirements associated with that decision are as follows:

- The additional comment period does not extend or otherwise affect the statutory deadlines by which state assessed telecommunications companies are required to submit annual statements.
- In order to be properly and accurately considered, all comments submitted by state assessed telecommunications companies must be appropriately supported and documented with industry specific data.
- All comments and supporting data must be submitted by the close of business on April 14, 2006. Comments and supporting data are to be submitted electronically to Kelli Sobel at the following email address: [SobelK2@michigan.gov](mailto:SobelK2@michigan.gov)
- After the comment period deadline has expired, the State Tax Commission will set up a meeting with interested parties for further discussion.

For your convenience, a draft copy of the staff proposed valuation multipliers appears below:

**STAFF DRAFT PROPOSAL FOR VALUATION MULTIPLIERS**

Attached are the valuation multipliers for valuing the personal property of state-assessed telecommunications companies, which the Staff has developed and recommends for use in making the 2006 assessments. These valuation multipliers are developed using an analytical methodology that is based on the Cost Approach to Valuation. The methodology focuses on the general factors which affect the value of the group, in order to arrive at a table of mass appraisal (Original Cost) valuation multipliers which provides a reliable indication of the total true cash value of the telecommunications personal property, as a group. The methodology first develops a multiplier for each acquisition year that adjusts the original historical cost of the asset group to

reflect the change in replacement cost that has occurred since the property was placed in service, and then adjusts the replacement cost new for the group downward, to reflect the remaining expected utility for the group. The adjustment from historical cost to replacement cost is accomplished through the use of indexing obtained from the AUS Telephone Plant Index, published by American Utility Services. The adjustment downward to reflect the remaining utility is accomplished by assuming a straight-line depreciation and then calculating a weighted average depreciation rate based on the expected rate of retirements from the group. Essentially, the method inferentially examines every item of property in the group to determine when it is expected to be retired from service and then calculates its rate of straight-line depreciation based on the amount of time that will pass between the date it is placed in service and the time that Staff expects it to be retired. For any given vintage year, the accumulated depreciation is deducted from the replacement cost that is inferentially determined by applying cost indexing to the original historic cost of the group, arriving at an estimate of the market value of the grouping of property acquired in that year. In similar fashion, a valuation multiplier is developed for each vintage year, and a valuation table is created. Each valuation multiplier in the table represents the ratio between the original aggregate cost of the group and the group's current market value, as inferentially determined.

It should be noted that the staff methodology is not a replacement cost less depreciation method, as the method is sometime used in other states. Instead of estimating an overall rate of depreciation for a particular vintage year of acquisitions, the staff method estimates a separate rate of depreciation for each layer of the expected disposal years for that vintage year of equipment. This method is a different technique than replacement cost less depreciation. The staff method recognizes that the items of property from a given vintage year that remain on the valuation date will have a variety of future disposal dates. Some of the items in the vintage group will be valued at almost nothing, for the reason that they are expected to be removed from service in the following year, or in the next several of the following years. The staff method essentially values the items of each expected disposal year separately by calculating their reproduction or replacement cost and then depreciating that disposal year grouping based on its expected remaining economic life. This technique is similar to one which is frequently used in conducting fee appraisals of specifically identified items of personal property and is commonly referred to as an "age-life" method.

The expected distribution of retirements has been determined by using the distribution implicit in several Iowa Curves that have been selected based on information obtained from several industry sources. When interpreting the nomenclature of a particular Iowa Curve designation, the first numeral(s) indicate(s) that the determined mean (commonly referred to as the "average") service life of the personal property in the group is the number of years that equals the numeral(s) indicated. The letters R, S or L are used to refer to the modality of the distribution of retirements. The designation R (Right) refers to the expectation that somewhat more of the property will be retired from service at an age greater than the mean service life than will be retired at an age less than the mean service life. The designation S (Symmetrical) refers to the expectation that roughly as much of the property will be retired before the mean service life as will be retired after the mean service life. The designation L (Left) refers to the expectation that somewhat more of the property will be retired from service at an age less than the mean service life than will be retired at an age greater than the mean service life. The number that follows the indication of modality refers to the proximity of the retirements to the year of the mean service life. A higher modality number indicates a smaller number of years over which most of the retirements are expected to occur (that most of the retirements will be bunched more closely

around the mean service life). For example, if the Iowa curve is designated as a 25 S1 Curve, we expect that the mean service life for the grouping of property will be 25 years, that we expect approximately as many of the retirements of the property to occur before the 25<sup>th</sup> year as occur after the 25<sup>th</sup> year and that we expect half of the retirements will occur within a 48 year period surrounding the mean service life.

The proposed valuation multipliers for state-assessed telecommunications personal property, which are attached hereto, are based on the assumptions set forth below. In each case the property has been separated into valuation groups using the chart of accounts contained in Part 32 of Volume 47 of the Code of Federal Regulations. The indicated Part 32 accounts and Iowa Curve (or in the case of K-Telco and R-Telco, the other source of the multiplier used) are shown for each Table:

**For Incumbent Local Exchange Carriers and Competitive Local Exchange Carriers:**

H-Telco	Account 32.2210	14 L5
I-Telco	Account 32.2232	10 R5
J-Telco	Accounts 32.2411, 32.2421, 32.2423, 32.2424, 32.2426 & 32.2431	19 R5
K-Telco	Account 32.2310	F, Computer Equipment
L-Telco	Account 23.2422	23 R5
M-Telco	Account 32.2423(1)	17 R5
N-Telco	Account 32.2441	37 R5

**For Inter-Exchange Carriers and Competitive Access Providers:**

O-Telco	Account 32.2210	14 L5
P-Telco	Account 32.2232	10 R5
Q-Telco	Account 32.2422	23 R5
R-Telco	Account 32.2310	F, Computer Equipment
S-Telco	Account 23.2441	37 R5
T-Telco	Account 32.2423(1)	17 R5

It should be noted that right of way acquisition costs (for the real property interest itself) would not be valued by these tables but, instead, would be valued separately (the form has provided a separate place for reporting these interests). The use of public rights of way would not be valued, except to the extent that the Telco might have booked acquisition costs relating to these interests (something we don't believe is usually the case).

**RECOMMENDED TABLES**  
(See the Key at the end of the Tables)

Year	Section H and O	Section I and P	Section K and R	Section J	Section M and T	Section L and Q	Section N and S
	see the notes below for explanations of the Sections						
2005	0.965	0.956	0.60	0.974	0.971	0.978	0.984
2004	0.894	0.845	0.44	0.954	0.945	0.993	0.997
2003	0.823	0.778	0.32	0.911	0.896	0.972	0.987
2002	0.720	0.708	0.24	0.877	0.855	0.925	0.998
2001	0.652	0.634	0.19	0.853	0.823	0.902	0.997
2000	0.560	0.555	0.15	0.816	0.778	0.865	0.999
1999	0.475	0.447	0.08	0.766	0.721	0.778	0.991
1998	0.397	0.363	0.08	0.724	0.671	0.714	0.985
1997	0.339	0.269	0.08	0.671	0.610	0.679	0.974
1996	0.273	0.210	0.08	0.625	0.556	0.665	0.963
1995	0.195	0.149	0.08	0.570	0.493	0.690	0.952
1994	0.152	0.113	0.08	0.485	0.407	0.628	0.943
1993	0.122	0.091	0.08	0.414	0.340	0.584	0.937
1992	0.105	0.083	0.08	0.358	0.279	0.524	0.928
1991	0.088	0.072	0.08	0.314	0.234	0.468	0.904
1990	0.070			0.260	0.186	0.417	0.867
1989	0.060			0.219	0.151	0.442	0.924
1988	0.043			0.135	0.091	0.409	0.878
1987	0.034			0.116	0.078	0.362	0.868
1986	0.030			0.088	0.060	0.293	0.858
1985	0.026			0.061	0.043	0.280	0.852
1984	0.017			0.046	0.032	0.224	0.849
1983	0.010			0.039	0.029	0.194	0.875
1982				0.033		0.167	0.863
1981				0.026		0.140	0.891
1980						0.137	0.915
1979						0.132	0.946
1978						0.120	0.964
1977						0.109	0.965
1976						0.100	0.969
1975						0.081	0.993
1974							1.004
1973							0.991
1972							0.979
1971							0.958
1970							0.917
1969							0.866
1968							0.807
1967							0.760
1966							0.714
1965							0.661
1964							0.611
1963							0.564

1962	0.520
1961	0.478
1960	0.440
1959	0.409
1958	0.381
1957	0.360
1956	0.336
1955	0.304
1954	0.280
1953	0.258
1952	0.246
1951	0.232
1950	0.216
1949	0.205
1948	0.196
1947	0.193
1946	0.178
1945	0.161
1944	0.124

H and O are for Switching Equipment

I and P are for Circuit Equipment

K and R are for Information Origination and Termination Equipment

J is for Poles and Aerial Cable except Fiber Cable

M and T are for Fiber Cable

L and Q are for all cables in conduit

N and S are for Conduit